

Retail Equity Research

KPIT Technologies Ltd.

IT – Automobile

BSE CODE : 542651

NSE CODE: KPITTECH

BLOOMBERG CODE: KPITTECH:IN

SENSEX: 74,221

12 Months Investment Period

Rating as per Mid Cap

CMP Rs.1,507 TARGET Rs.1,821 RETURN 21%

(Closing: 22-05-2024)

BUY

KEY CHANGES:

TARGET

RATING

EARNINGS

Long term positive outlook...

KPIT Technologies Ltd., a digital transformation consulting & software integration company, provides cutting edge engineering solutions to more than 150 companies & enterprises in the field of CASE mobility.

- Q4FY24 revenue came in at 30% YoY, driven by consistent orders from the strategic account, new engagements and diagnostics. Technica’s revenue was also marginally up on a YoY basis.
- EBITDA margin improved by 158bps due to operational efficiencies & better realisation. We expect the margin to be in the range of 20-21% reflecting ongoing investments in technology & talent.
- The growth in the mobility & autonomous space is a priority for customers, and KPIT continues to hold strong domain expertise by adding more capabilities through JV and acquisition.
- We expect revenue and PAT CAGR to grow by 21% and 29% over FY24E-FY26E respectively, on the back of deal wins, pricing benefits and expansion.
- We value KPIT at 50x FY26E EPS and recommend Buy rating at CMP.

Strong player in the high entry barrier segment

Q4FY24 revenue grew by 30% YoY and 4.8% QoQ. (Sequentially, 4.8% constant currency). The company reported dollar revenue of 2.7% QoQ (35.0% YoY), led by Powertrain, Autonomous and connected domain from the strategic accounts. Growth was led by passenger vehicles in Europe & Asia. Despite employee addition, EBITDA margin expanded to 20.6% up 200bps YoY owing to operational efficiencies and better realisation. Integration expenses will continue over the next 2 quarters, which will reflect in the depreciation. PAT grew by 54.6% YoY. Technica’s operating margin was inline with expectations. The company added a TCV (Total contract value) of \$ 189M. In addition, the yearly growth outlook was revised to 24% through organic growth and overall growth to +33%, with a margin estimate of 19 to 20% range. However, it needs to win one mega deal every year to maintain the sustainability of 20%+ growth, which needs to be watched given the valuation burden.

Readiness to meet the needs of the EV- clients

The company derives most of its revenue from innovative technology, long-term relationships throughout the product cycle, and cost control exercises through the centralization of electronic control units (ECUs), and for that, the scalability of the industry is huge. Automotive manufacturers are prioritising investment in new-age technologies. The company has joined an elite group of sustainability-focused organisation world wide that has developed sodium ion based battery technology. The technology is feasible due to its abundant raw material availability, thereby making electric mobility more affordable. KPIT is at the forefront of these due to its strong domain expertise, integrity, problem-solving skills, and reliability for outsourcing. Despite weak global macros, engineering spend by OEMs has gone up by 10%, especially in the CASE (Connected Autonomous Shared and Electric) area, where it has gone up by ~20%. Over the years, the company has invested heavily in technologies to maintain its leadership position in this area and improved the deal size from 50 to \$200 million. The company is well positioned to increase its focus on electric vehicles, especially in the US and Europe, with a top client concentration of T25 globally.

Margin to remain resilient.

KPIT has improved its margin in Q3, and currently it is at 20.6% with an expansion of 236bps. This trend is likely to stabilize and continue for a sustainable period. With the advent of newer technologies, the acquisition of Technica Group, and other long-term engagements like N-Dream (car gaming) will enable the company to push its product portfolio further. Technica has ~20% margin, and KPIT delivered a 20% margin for the quarter, adding confidence to its long term outlook.

Valuation

Despite the industry becoming more cautious about spending, KPIT has not seen any deal rollover from its top clients in the near term. However, it is expected that the growth will be reasonable for H2 due to the offshore shift. On a 1 yr. fwd., the stock is trading at a premium compared to its historical avg. We value KPIT at 50x FY26E with a target price of Rs.1,821 and recommend Buy rating.

Company Data

Market Cap (Rs.cr)	40,847
Enterprise Value (Rs.cr)	40,465
Outstanding Shares (cr)	27.4
Free Float	61%
Dividend Yield	0.3%
52 week high Rs.	1,764
52 week low Rs.	913
6m average volume (cr)	0.13
Beta	1.2
Face value Rs.	10

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	39.5	39.5	39.5
FII's	25.7	26.5	24.0
MFs/Insti	12.3	11.6	14.0
Public	22.6	22.5	22.6
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-4.7%	3.5%	59.5%
Absolute Sensex	1.8%	12.0%	19.3%
Relative Return*	-6.6%	-8.5%	40.1%

\*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	4,872	6,034	7,141
Growth (%)	44.8	23.9	18.3
EBITDA	991	1,219	1,471
EBITDA Margin (%)	20.3	20.2	20.6
Adj. PAT	595	801	999
Growth (%)	56.7	34.5	24.7
Adj. EPS	21.7	29.2	36.4
Growth (%)	56.7	34.5	24.7
P/E	69.4	51.6	41.4
P/B	19.3	14.6	11.1
EV/EBITDA	41.3	32.9	26.6
ROE (%)	31.3	32.2	30.4
D/E	0.2	0.1	0.1

Saji John  
Research Analyst

Quarterly Financials (Consolidated)

Profit & Loss

Rs (cr.)	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Sales	1,318	1,017	29.5	1,257	4.8	4,872	3,365	44.8
EBITDA	272	194	40.2	258	5.4	991	633	56.6
EBITDA margins (%)	20.7	19.1	158bps	20.6	10bps	20.3	18.8	154bps
Depreciation	53	42	24.9	50	5.5	196	146	33.8
EBIT	220	152	44.5	209	5.3	796	487	63.5
Interest	12	23	-47.76	16	-25.14	55	44	24.0
Other Income	17	7	145.6	19	-11.50	60	55	9.4
Exceptional Items	-	-	0.0	-	0.0	-	-	-
PBT	224	136	64.8	212	6.1	801	494	62.0
Tax	59	25	137.9	55	6.8	202	110	83.7
Share of profit from associates	-	-	-	-	-	1	0	1
Minority interest	2	0	0.0	1	0.0	4	4	0.0
Reported PAT	164	112	47.3	155	5.8	595	381	56.4
Adjustments	-	-	0.0	-	0.0	-	-	0.0
Adj PAT	164	112	47.3	155	5.8	595	380	56.7
No. of Shares	27	27	-	27	-	27	27	-
Adj EPS (Rs)	6.0	4.1	47.3	5.7	5.8	21.7	13.9	56.4

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs cr	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	5,629	7,109	6,034	7,141	7.2	0.4
EBITDA	1,137	1,465	1,219	1,471	7.2	0.4
Margins (%)	20.2	20.6	20.2	20.6	0bps	-1bps
Adj. PAT	734	994	801	999	9.2	0.5
EPS	26.8	36.2	29.2	36.4	9.2	0.6

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	2,432	3,365	4,872	6,034	7,141
% change	19.5	38.3	44.8	23.9	18.3
EBITDA	427	632	991	1,219	1,471
% change	17.6	18.8	20.3	20.2	20.6
Depreciation	120	146	196	191	195
EBIT	308	486	795	1,028	1,276
Interest	19	32	55	76	83
Other Income	45	40	60	121	143
PBT	344	497	800	1,073	1,337
% change	93.9	43.6	62.0	34.0	24.6
Tax	68	110	202	268	334
Tax Rate (%)	19.8	22.2	25.0	25.0	25.0
Reported PAT	274	381	595	801	999
Adj*	112.9	6.7	0.0	0.0	0.0
Adj PAT	263	380	595	801	999
% change	86.0	44.5	56.7	34.5	24.7
No. of shares (cr)	27	27	27	27	27
Adj EPS (Rs.)	10.0	13.9	21.7	29.2	36.4
% change	86	44	57	35	25
DPS (Rs.)	2.7	3.3	3.9	3.9	3.9
CEPS (Rs.)	14	19	29	36	44

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	464	643	997	1,264	1,531
Non-cash adj.	-7	45	59	80	86
Other Adjustments	-89	-99	-202	-268	-334
Changes in W.C	87	-177	-390	63	12
C.F. Operation	475	418	464	1,138	1,295
Capital exp.	-587	-1,242	-303	-200	-197
Change in inv.	0	0	21	0	0
Other invest.CF	308	1084	0	0	0
C.F – Investment	-279	-158	-303	-200	-197
Issue of equity	3	-21	0	0	0
Issue/repay debt	-235	-177	-55	-76	-83
Dividends paid	-74	-89	-112	-112	-112
Other finance.CF	183	106	0	0	0
C.F – Finance	-127	-183	-107	-133	-139
Chg. in cash	69	77	55	806	959
Closing cash	356	419	510	1,317	2,277

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	893	549	510	1,317	2,277
Accounts Receivable	391	621	801	959	1,135
Inventories	0	59	0	0	0
Other Cur. Assets	143	265	374	463	548
Investments	129	64	247	306	362
Gross Fixed Assets	682	795	935	1,074	1,214
Net Fixed Assets	444	474	418	366	311
CWIP	0	33	12	12	12
Intangible Assets	458	3,014	3,013	3,014	3,015
Def. Tax (Net)	35.4	37.1	53.4	66.1	78.3
Other Assets	1,293	1,202	1,375	1,703	2,015
Total Assets	2,362	3,433	3,763	4,872	6,138
Current Liabilities	687	1,100	1,108	1,441	1,736
Provisions	25.4	37.6	26.7	33.1	39.1
Debt Funds	227	286	346	401	456
Other Liabilities	113.9	357.3	143.3	163.5	183.0
Equity Capital	274	274	274	274	274
Reserves & Surplus	1040	1381	1869	2562	3454
Shareholder's Fund	1,310	1,652	2,139	2,833	3,724
Total Liabilities	2,362	3,433	3,763	4,872	6,138
BVPS (Rs.)	47	53	71	96	129

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	17.6	18.8	20.3	20.2	20.6
EBIT margin (%)	12.6	14.5	16.3	17.0	17.9
Net profit mgn.(%)	10.8	11.3	12.2	13.3	14.0
ROE (%)	20.8	25.6	31.3	32.2	30.4
ROCE (%)	15.2	18.4	22.0	23.0	21.9
W.C & Liquidity					
Receivables (days)	54.7	54.9	53.3	53.2	53.5
Inventory (days)	0.0	3.2	2.2	0.0	0.0
Payables (days)	31.3	26.1	23.4	26.1	29.1
Current ratio (x)	2.1	1.3	1.5	1.8	2.1
Quick ratio (x)	1.8	1.0	1.0	1.4	1.7
Turnover & Leverage					
Gross asset T.O (x)	3.7	4.6	5.6	6.0	6.2
Total asset T.O (x)	1.1	1.2	1.4	1.4	1.3
Int. coverage ratio (x)	15.9	15.1	14.5	13.6	15.4
Adj. debt/equity (x)	0.2	0.2	0.2	0.1	0.1
Valuation					
EV/Sales (x)	16.7	12.2	8.4	6.6	5.5
EV/EBITDA (x)	94.8	64.8	41.3	32.9	26.6
P/E (x)	157.1	108.8	69.4	51.6	41.4
P/BV (x)	31.4	25.0	19.3	14.6	11.1

Recommendation Summary (Last 3year. )



Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

**Definition:**  
**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

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